

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2009-479-W/S

IN RE:)
)
Application of United Utility Companies,)
Inc. for adjustment of rates and charges)
and modifications to certain terms)
and conditions for the provision of)
water and sewer service.)
_____)

DIRECT TESTIMONY
OF
JOHN D. WILLIAMS

1 **Q. PLEASE STATE YOUR NAME, PRESENT POSITION AND BUSINESS**
2 **ADDRESS.**

3 A. My name is John D. Williams. I am employed as the Director of Governmental
4 Affairs of Utilities, Inc. ("UI" or "Company"). My business address is 121 N. Monroe
5 Street, #1210, Tallahassee, Florida, 32301.
6

7 **Q. WHAT ARE YOUR DUTIES IN YOUR CURRENT POSITION?**

8 A. As UI's Director of Governmental Affairs, it is my responsibility to serve as the
9 liaison between UI and its operating subsidiaries' personnel and the individual state
10 regulatory agency staffs. I attend state commission public meetings when possible and
11 participate on behalf of UI subsidiaries when appropriate. I provide expert witness
12 testimony at state commission hearings. I monitor state agency rulemaking proceedings,
13 and monitor state legislative matters as they relate to our companies. I monitor and
14 attend all of the NARUC meetings, as well as the NARUC regional conferences. I
15 coordinate any requested presentations from our companies at these meetings. I
16 coordinate UI's participation in industry organizations such as the National Association
17 of Water Companies and monitor Federal Government activities involving the USEPA

1 and Congress as they relate to our industry and the UI companies. I also provide
2 regulatory training to UI employees.

3
4 **Q. WHAT IS YOUR EDUCATIONAL AND PROFESSIONAL BACKGROUND?**

5 A. I have a Bachelor of Science degree in Business Administration from the
6 University of Florida. From 1974 until January of 2007 I was employed by the Florida
7 Public Service Commission ("FPSC"). At the FPSC, most of my responsibilities
8 involved the economic regulation of water and wastewater utilities. I was the Bureau
9 Chief of Rates, Certification, and of Policy Development and Industry Structure. I
10 testified and made recommendations in hundreds of cases before the FPSC. I was also
11 responsible for the FPSC's water legislative program, and was frequently called upon to
12 testify on behalf of the FPSC at the Florida Legislature.

13
14 During my employment at the FPSC, I was a member of the National Association
15 of Regulatory Utility Commissioners ("NARUC") Staff Subcommittee on Water. I was
16 the Vice Chairman, and Chairman of the Water Subcommittee. I have been on the
17 Faculty of the NARUC Water Committee's Eastern and Western Utility Rate Schools
18 since 1986. I have also been on the faculty of Michigan State University's "Camp
19 NARUC" program. I was also a member of the American Water Works Associations
20 Rates and Charges Subcommittee and was involved in writing portions of the
21 association's Rate Manuals.

22
23 I retired from my position at the FPSC in January of 2007, and was employed by
24 Utilities, Inc. shortly thereafter.

25
26 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS DOCKET?**

27 A. The purpose of my testimony is to support the Application of United Utility
28 Companies, Inc. ("United" or "Company") for an increase in its water and sewer rates.
29 Specifically, I will be discussing the internal and external evaluation which UI has

1 undertaken that resulted in replacement of our accounting and billing software and
2 computer systems, known as Project Phoenix, and United's request for modifications to
3 its rate schedule to allow for electronic billing and an increase in its customer notification
4 fee.

5
6 **Q. WHY DID UTILITIES, INC. INITIATE PROJECT PHOENIX?**

7 A. UI had not made a significant investment in technology in quite some time.
8 Antiquated systems, lack of integration, and the lack of standardization were beginning to
9 have an adverse effect on the UI operating subsidiaries and their customers.
10 Accordingly, UI need to improve capabilities and processes in the accounting, customer
11 service, customer billing and financial and regulatory reporting areas. Some of the
12 deficiencies in our systems and processes were noted in the April 2, 2007, Management
13 Audit performed by Schumaker & Company filed with the Commission by the Office of
14 Regulatory Staff as required by Commission Order Number 2006-284. Project Phoenix
15 addressed these deficiencies.

16
17 **Q. WHEN DID PROJECT PHOENIX BEGIN?**

18 A. Project Phoenix actually began in early 2006 with a series of internal and external
19 evaluations, which culminated in a business case presentation by Deloitte & Touche to UI
20 in September 2006.

21
22 The business case presentation confirmed UI's initial evaluations that fragmented
23 and non-standardized processes were complex and inefficient, with an attendant risk of
24 error and control breakdown, the existing infrastructure unnecessarily placed stress on
25 UI's human capital, the legacy financial and customer care systems were either fully
26 customized or unsupported, or both, which resulted in a risk of breakdown and impeded
27 management's ability to obtain information to make decisions, and use of spreadsheets
28 made ensuring accuracy and control difficult, resulting in the potential for errors in
29 operation and regulatory reports.

1 After an evaluation of potential solutions, UI management selected JD Edwards
2 Enterprise One (“JDE”) as the financial system, including asset management, and
3 Oracle’s Customer Care and Billing System (“CC&B”) as the customer information
4 system. These systems are integrated in a manner that allows for the sharing of crucial
5 information between UI’s different operational organizations and resolve the deficiencies
6 that were noted in the Management Audit.

7
8 **Q. WHEN WAS JDE PLACED INTO SERVICE?**

9 A. JDE was officially placed in service on December 3, 2007.

10
11 **Q. WHAT IS THE COST OF THE JDE PROJECT INCURRED BY UTILITIES,**
12 **INC.?**

13 A. The cost of the JDE system was \$13,995,789.

14
15 **Q. WHAT PORTION OF THE COST OF JDE INCURRED WAS ALLOCATED TO**
16 **UNITED?**

17 A. Approximately \$60,266 was allocated to United.

18
19 **Q. WHERE CAN THE ALLOCATION OF THAT COST BE FOUND IN UNITED’S**
20 **FILING?**

21 A. The allocation of the UI’s investment in JDE to United is included in both rate
22 base and operating expenses. These costs are allocated between United’s water and
23 sewer operations.

24
25 **Q. HOW WAS THAT ALLOCATION DEVELOPED?**

26 A. UI uses an allocation process based on equivalent residential connections or
27 “ERCs”. ERC’s are established for each of UI’s operating subsidiaries for allocating
28 corporate costs. The allocation of Project Phoenix costs that was prepared for this case
29 utilized the United ERCs at the end of the test year in comparison to the total ERCs for

1 UI. Dividing the United ERCs by the total ERCs resulted in a percentage value that was
2 then multiplied by the total investment in JDE.
3

4 **Q. YOU MENTIONED THAT ERCs HAVE BEEN ESTABLISHED FOR EACH OF**
5 **UI's OPERATING SUBSIDIARIES FOR ALLOCATING CORPORATE COSTS.**
6 **PLEASE EXPLAIN.**

7 A. We have established an ERC amount for each of our operating companies that is
8 used in allocating the costs of the services that are provided by our service company,
9 Water Service Corporation ("WSC"), and the assets that are used to serve these operating
10 companies. ERCs are a recognized method of allocation by the American Water Works
11 Association ("AWWA"). The ERCs are calculated based on the equivalent meter factors
12 as established by the AWWA and contained in the AWWA Manual M 6, Water Meters,
13 Selection, Installation, Testing and Maintenance. These factors are used in establishing
14 water and wastewater rates for utilities throughout the country and represent the
15 maximum demand that a customer could place on the water or wastewater system.
16

17 Previously, these costs had been allocated based on Customer Equivalents
18 ("CEs"). Because the CE allocation method focused on the estimated number of units
19 served by a single connection, and not the actual demand the units put on the system, this
20 method divorced the costs allocated to customers from the actual capacity required from
21 the system. By comparison, the ERC methodology recognizes the resulting cost
22 difference between the capacity required for large use customers and our smaller use
23 customers. Using ERCs is a fair and appropriate method of allocation and results in a
24 simpler and more accurate method for determining the allocations for each subsidiary.
25 Because of these reasons, ERCs are used in all of the other jurisdictions in which our
26 operating companies serve and have received rate relief that feature the ERC
27 methodology including Florida, Nevada, North Carolina, Louisiana and Georgia. Rate
28 cases are pending in other states and, as of yet, no public service commission has
29 disallowed the ERC methodology. Needless to say, it is essential that one method of

1 allocation be used by all of our companies in order to avoid problems with under- or
2 over-recovery of allocated costs.

3
4 **Q. WHEN WAS CC&B PLACED INTO SERVICE?**

5 A. CC&B was placed into service on June 2, 2008.

6
7 **Q. WHAT IS THE COST OF THE CC&B PROJECT INCURRED BY UTILITIES,**
8 **INC.?**

9 A. The cost of the CC&B system through December 31, 2008, was \$7,151,369.

10
11 **Q. WHAT PORTION OF THE COST OF CC&B INCURRED WAS ALLOCATED**
12 **TO UNITED?**

13 A. Approximately \$30,794 was assigned to United.

14
15 **Q. WHERE CAN THE ALLOCATION OF THE COST OF CC&B BE FOUND IN**
16 **UNITED'S FILING?**

17 A. The amount of UI's investment in CC&B allocated to United is contained in both
18 the rate base and operating expense amounts set out in the application.

19
20 **Q. HOW WAS THAT ALLOCATION DEVELOPED?**

21 A. The allocation was developed in the same manner as the JDE allocation.

22
23 **Q. IS THE COMPANY PROPOSING TO INCREASE ITS FEE FOR PROVIDING**
24 **NOTICE TO DELINQUENT SEWER CUSTOMERS PRIOR TO SERVICE**
25 **TERMINATION?**

26 A. Yes, it is. Commission Regulation 103-535.1 provides that before any sewerage
27 service may be discontinued, the utility must give thirty days written notice to the
28 customer, by certified mail with copies forwarded to the appropriate county health
29 department and ORS. The Company's current rate schedule provides that the Company

1 may impose a fee of \$4.00 to defray the clerical and mailing costs of such notices to the
2 customers creating the cost. United has been authorized to impose this fee since at least
3 1983, and has not increased the current fee of \$4.00 since 1987. According to the Rates
4 for Domestic Letters and the Special Service Fee History published by the United States
5 Postal Service, copies of which are contained to my testimony Exhibit "A" since 1987
6 the cost of certified mail has increased from \$1.67 (\$0.22 postage + \$0.75 certified mail
7 fee + \$0.70 return receipt fee) to \$5.54 (\$0.44 postage + \$2.80 certified mail fee + \$2.30
8 return receipt fee). Additionally, United's administrative costs to process and provide
9 this required notice is \$18. Therefore, the proposed increase in the fee to \$24 is
10 reasonable and will allow the Company to recover its incurred costs.
11

12 **Q. WHY IS THE COMPANY PROPOSING TO MODIFY ITS TERMS AND**
13 **CONDITIONS TO ALLOW FOR ELECTRONIC BILLING?**

14 A. The Company believes that its proposed language on electronic billing will
15 provide customers with additional billing options which will allow for electronic billing
16 and payment. Electronic billing would not be required of all customers, but would
17 only be provided as a service if a customer chooses and when it is within the
18 capability of the Company. United believes that its customers would appreciate the
19 opportunity to receive and pay their bills online and that they would benefit from the
20 ease and convenience of maintaining their utility account online.
21

22 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

23 A. Yes, it does.